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Despite the drastically changed macroeconomic environment in 2014, considering the high social significance of securing a high-quality electricity supply and the importance of modernizing the grid infrastructure for further comprehensive regional development, ROSSETI did its utmost to enable subsidiaries and dependent companies to implement the consolidated capital investment program.

We carried our plans in full last year, with the financing of capital investment totaling 240 billion rubles and the value of commissioned capital assets reaching 305.9 billion rubles, or 19.430 MVA of transformer capacity and 32.819 kilometers of power lines.

In the reporting year, ROSSETI's investment division was highly successful in enhancing the transparency and efficiency of procurement procedures. The consolidated economic effect totaled 30.6 billion rubles (exclusive of VAT), or 8.8% of the aggregate value of purchases. More than 98% of all purchases were made electronically.

This allowed us to receive several awards and the highest positions in the national procurement transparency ratings.

Another focus of the investment division's attention was work on building up partner relations with small and medium-sized businesses and increasing their share in the total number of contractors. We developed and put into operation our own electronic trading floor, providing small and medium-sized businesses with easier access to purchases made by both the Company and its subsidiaries and dependent companies.

Purchases from small and medium-sized businesses accounted for 24% at the end of 2014.

Our dependence on foreign-made electrical equipment was of no less importance in the current external environment. In 2014, ROSSETI formulated the import substitution policy. It is planned to approve and begin implementing the policy in 2015.

Procedure for Formulating the Capital Investment Program

The procedure for formulating the consolidated capital investment program is set out in the Schedule of Formulating the Consolidated Investment Program of ROSSETI and Reporting on the Implementation of the Consolidated Investment Program approved by the Board of Directors of the Company (Minutes of the Meeting No. 175 of December 29, 2014).

In accordance with the Schedule, ROSSETI approves the drafts and adjustments of capex programs, reviews reports on the implementation of SDCs' capex programs, and prepares the Company's consolidated capital investment program and reports on its implementation.

CONSOLIDATED CAPITAL INVESTMENT PROGRAM OF ROSSETI SDCS

The 2014 consolidated capital investment program of ROSSETI's subsidiaries and dependent companies takes account of SDCs' current capex programs approved in accordance with a resolution of the Government.

The capex programs of SDCs meet the following principal criteria:

- remedying the consequences of accidents at electric grid facilities;
- improving the operating reliability of electric grid facilities to secure an uninterrupted power supply;
- including the facilities intended for preventing (reducing) long-lasting power outages that affect socially important facilities and vital infrastructure;
- including the facilities necessary to perform obligations under network connection contracts and under connection contracts for lowend houses (the program of the Federal Agency for Construction. Housing and Utilities) and including the facilities ensuring that generators deliver capacity under capacity supply agreements;
- including the facilities initiated in the previous years;
- including the facilities in an unsatisfactory technical condition, whose routine maintenance and repair are economically and technically infeasible.

Furthermore, the capital investment program contains the facilities ensuring the implementation of the following programs:

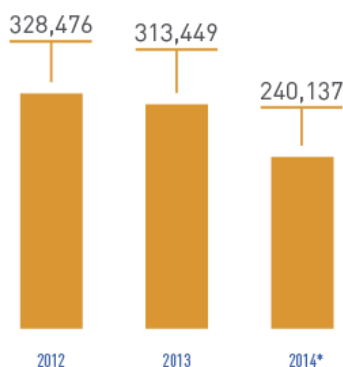
- energy conservation and energy efficiency enhancement;
- creation of automatic emergency control systems and automatic mode control systems;
- creation of telemetry and telecommunication systems;
- installation of voltage regulators and reactive power compensators.

SDCs' capital investment is the capital expenditures that include the following expenses:

- new construction;
- rehabilitation, extension, and technical upgrading of production and nonproduction facilities;
- acquisition of buildings, structures, equipment, land, and facilities intended for the use of natural resources;
- acquisition and creation of intangible assets and other capital investment expenses;
- equity investments in electric grid companies.

In 2014, financing was 240.1 billion rubles (inclusive of VAT), while the value of commissioned capital assets totaled 305.9 billion rubles. Commissioned capacity in 2014 totaled 19.430 MVA and 32.819 kilometers

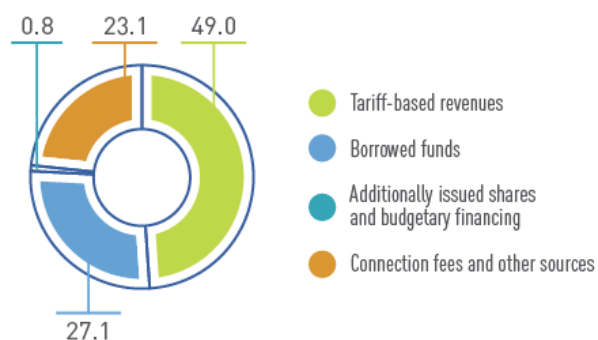
Changes in Financing for 2012–2014, million rubles (inclusive of VAT)



* In comparability purposes with reports for previous periods information is given without results of subsidiaries and dependent companies of ROSSETI SDCs: JSC Yargorelectroset, CJSC Svet, CJSC TSEC and CJSC Kurortenergo

Due to restrictions on the tariff growth rate, the financing of the capex program was decreased to 240.1 billion rubles.

Principal Financing Sources for the Capital Investment Program in 2014, %



In 2014, the principal areas of financing were network connection (34.1%), technical upgrading and rehabilitation (29.4%), and new construction (24.4%).

Areas and Breakdown of Financing Under ROSSETI SDCs' Consolidated Investment Program, million rubles (inclusive of VAT)

Areas of Financing	2013		2014*	
Network connection	75,739	24.2%	81,887	34.1%
Technical upgrading and rehabilitation	98,714	31.5%	70,525	29.4%
New construction	96,437	30.8%	58,612	24.4%
Other	42,560	13.6%	29,113	12.1%
Total	313,449	100.0%	240,137	100.0%

* In comparability purposes with reports for previous periods information is given without results of subsidiaries and dependent companies of ROSSETI SDCs: JSC Yargorelectroset, CJSC Svet, CJSC TSEC and CJSC Kurortenergo

PRIORITY PROJECTS UNDER THE CAPITAL INVESTMENT PROGRAM. PLANNED COMPLETION DATES

517 priority investment projects are scheduled to be carried out in 2014–2019. They meet the criteria for qualifying as priority investment projects of ROSSETI's subsidiaries and dependent companies and include 165 investment projects for transmission grids and 352 investment projects for distribution grids

Major Priority Projects Scheduled for Completion in 2015

Transmission grids (FGC UES):

- Delivery of capacity from Leningrad NPP-2, Novovoronezh NPP-2, Nizhne-Bureyskaya HPP, Zelenchukskaya HPP-PSPP, etc.
- Electricity supply facilities in the Crimean Federal District.

Distribution grids:

- Network connection for facilities of large and socially important electricity consumers (Rosneft, Gazprom, Oboronenergo, New Moscow, Skolkovo Innovation Center, etc.).
- Delivery of capacity from Gotsalinskaya HPP, Chelyabinsk TPP, Novovoronezh NPP, etc.

Key Indicators of ROSSETI SDCs' Consolidated Investment Program in 2014

SDCs	Financing, million rubles (inclusive of VAT)	Commissioned Capital Assets, million rubles (exclusive of VAT)	Commissioned Capital Assets, MVA	Commissioned Capital Assets, kilometers
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IDGC of Siberia	7,041	6,681	865	2,197
TDC	556	407	25	91
Tyumenenergo	9,419	4,465	131	258
IDGC of Urals	7,956	7,339	426	2,060
IDGC of Volga	6,271	6,491	435	1,153
IDGC of South	1,897	1,707	111	410
Kubanenergo	8,442	22,084	500	1,567
IDGC of Northern Caucasus	1,810	2,395	160	520
Chechenenergo	545	566	203	245
IDGC of Center and Volga Region	9,428	8,095	364	2,833
IDGC of North-West	5,191	4,985	400	1,636
LENENERGO	25,178	24,314	1,450	2,490
Yantarenergo	863	651	83	149
IDGC of Centre	14,245	12,913	1,107	5,110
MOESK	47,795	45,452	3,440	8,614
Tyvaenergo	105	58	10	40
ENCE	2,539	2,185	198	324
FGC UES*	90,857	155,091	9,522	3,121
Total for ROSSETI SDCs	240,137	305,879	19,430	32,819
Tsarskoselskaya Energy Company	136	116	5	14
Kurortenergo	339	317	24	20
Svet	6	5	0	0
Yargorelektroset	184	135	24	80
Total on JSC ROSSETI including results of subsidiaries and dependent companies of ROSSETI SDCs	240,801	306,451	19,483	32,933

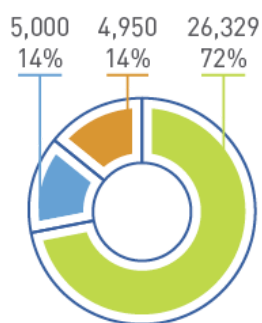
Changes in Commissioned Capacity Under ROSSETI SDCs' Consolidated Investment Program for 2012–2014

SDCs	2012		2013		2014*		2014/2013, %	
	MVA	km	MVA	km	MVA	km	MVA	km
IDGC of Siberia	633	1,487	522	1,486	865	2,197	65.7	47.8
TDC	115	793	82	221	25	91	(69.5)	(58.8)
Tyumenenergo	865	716	649	90	131	258	(79.8)	186.7
IDGC of Urals	621	1,242	644	1854	426	2,060	(33.9)	11.1
IDGC of Volga	780	1,753	779	1823	435	1,153	(44.2)	(36.8)
IDGC of South	203	1,316	299	972	111	410	(62.9)	(57.8)
Kubanenergo	666	241	257	357	500	1,567	94.6	338.9
IDGC of Northern Caucasus	241	1,469	277	621	160	520	(42.2)	(16.3)
NURENERGO (until 2013)/ Chechenenergo (from 2014)	31	178	37	386	203	245	448.6	(36.5)
IDGC of Center and Volga Region	693	3,603	694	2,952	364	2,833	(47.6)	(4.0)
IDGC of North-West	469	1,836	357	2,366	400	1,636	12.0	(30.9)
LENENERGO	1,911	1,581	907	1,846	1,450	2,490	59.9	34.9
Yantarenergo	23	105	74	118	83	149	12.2	26.3
IDGC of Centre	1,518	8,026	1,362	5,689	1,107	5,110	(18.7)	(10.2)
MOESK	4,792	4,320	4,453	6,195	3,440	8,614	(22.7)	39.0
Tyvaenergo	5	34	7	42	10	40	42.9	(4.8)
ENCE	553	90	154	133	198	324	28.6	143.6
FGC UES**	17,827	3,643	10,793	3,690	9,522	3,121	(11.8)	(15.4)
Total for ROSSETI SDCs	31,946	32,433	22,346	30,843	19,430	32,819	(13.0)	6.4

* Information on commissioned production facilities is according to Appendix 6.3 "Report on FGC UES Commissioned/Decommissioned Facilities for 2014" sent by FGC UES to the Ministry of Energy of the Russian Federation with Letter No. GV-1922 dated April 1, 2015, under Resolution of the Government of the Russian Federation No. 977 of December 1, 2009.

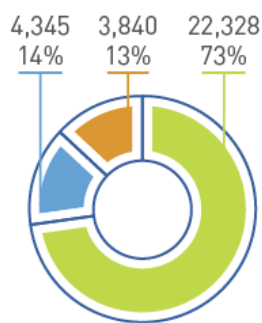
** Information on commissioned production facilities is according to Appendices 6.3 "Report on FGC UES Commissioned/Decommissioned Facilities" sent by FGC UES to the Ministry of Energy of the Russian Federation under Resolution of the Government of the Russian Federation No. 977 of December 1, 2009.

Received Federal Budget Funds (million rubles)



- Program of the Construction of Olympic Games Sites
- Program to Renew Cable Lines of 6–110 kV in St. Petersburg
- Comprehensive Program of Measures to Reduce Above-standard Electricity Losses

Spent Federal Budget Funds (million rubles)



- Program of the Construction of Olympic Games Sites
- Program to Renew Cable Lines of 6–110 kV in St. Petersburg
- Comprehensive Program of Measures to Reduce Above-standard Electricity Losses

Major Priority Projects Completed by the ROSSETI Group in 2014

SDCs	Project
IDGC of Centre	Completed construction of SS 110 kV Kreyda with 50 MVA commissioned, retaining an electricity supply for existing customers in Belgorod during the rehabilitation of SS 330 kV Belgorod, building a new main substation, increasing electricity consumption, and securing a more reliable electricity supply. The value of commissioned capital assets is 280.44 million rubles
Kubanenergo	Completed construction of OL 110 kV from Kirillovskaya to Vostochnaya with a branch line to SS Penayskaya and OL 110 kV from Vostochnaya to Proletariy with a branch line to SS Penayskaya, securing an uninterrupted electricity supply for facilities of Ministry of Defense of the Russian Federation
IDGC of Northern Caucasus	Completed rehabilitation of more than 120 kilometers of 110-kV overhead lines, reducing the risks of the 2014/15 heat deficit period and taking measures to reduce the risk of power outages in high-risk areas as approved by the Ministry of Energy of the Russian Federation
MOESK	Completed rehabilitation of SS 110/10 kV Avtozavodskaya (MOESK), securing an uninterrupted electricity supply for industrial producers and households in Moscow's districts Nagatino-Sadovniki, Pechatniki, and Nagatinsky Zaton Completed rehabilitation of SS 110/10 kV Odintsovo, increasing capacity to 326 MVA to secure an electricity supply for new residential areas in Odintsovo
IDGC of Volga	Completed construction of SS 110/10 kV Aeroport, providing network connection for airport facilities in Saratov
IDGC of Center and Volga Region	Completed construction of SS 110 kV Strelka with main PL 110 kV, solving the electricity shortage and securing a more reliable electricity supply for Nizhni Novgorod, including by enabling new customers to obtain electricity connections under the Housing national project and providing an electricity supply for a 45,000-seat stadium Completed construction of PL 110 kV from Novogorkovskaya CHPP to Kudma-2.3, aimed at delivery of capacity from Novogorkovskaya CHPP
IDGC of Siberia	Completed construction of SS 110/10 kV Solnechnaya Polyana, securing a reliable electricity supply for customers in the Lenisky District and the Industrialny District of Barnaul Completed construction of OL 110 kV from Zabaykalsk to Priargunsky Industrial Mining and Chemical Union CHPP, providing network connection for electric grid facilities of Russian Railways under the project to electrify the Zabaykalsk Railway's section from Karymskaya Station of the Trans-Siberian Railroad to the Chinese border (Zabaykalsk Station)
FGC UES	Completed construction of external electricity supply facilities for the Eastern Siberia-Pacific Ocean oil pipeline of Transneft (Pump Stations 11, 15, and 19) in the Far Eastern Federal District Completed construction of SS 500 kV Svyatogor (Phase 1) with branch lines of OL 500 kV and 220 kV, providing network connection for electrical installations of Transneft and Gazprom in the Yamalo-Nenets Autonomous District Completed construction of facilities, aimed at delivery of capacity from Beloyarsk NPP-2 and Rostov NPP (Power Unit 3) Completed construction of an important intersystem facility (OL 500 kV from Krasnoarmeyskaya to Gazovaya with the extension of SS 500 kV Krasnoarmeyskaya and SS 500 kV Gazovaya), securing the reliability of the Unified National (All-Russian) Electric Grid Completed construction of OL 220 kV from Urengoyanskaya TPP to Mangazeya 1, 2, performed under a contract with Transneft Completed construction of OL 220 kV from Nyagan TPP to Kartopya, aimed at delivery of capacity from Nyagan TPP

Completed Program of the Construction of Olympic Games Sites and Proposals for the Future Use of Federal Budget Funds Under the Program of the Construction of Olympic Games Sites, 21 sites were built and put into operation, including:

- 747 kilometers of cable and overhead lines;
- 412 transformer substations and distribution substations;
- 5 substation facilities with total capacity of 290 MVA;
- commissioning permits granted by the Ministry of Regional Development of the Russian Federation.

Distribution of saved federal budget funds:

- In 2009–2012, federal budget funds totaling 26,329 million rubles were contributed to the share capital of the Company and Kubanenergo, of which 22,351 million rubles were spent. The completed construction resulted in 3,978 million rubles of saved funds;
- ROSSETI submitted to the Ministry of Energy of the Russian Federation a proposal to redistribute these funds by amending the Federal Law on the Budget for 2015 and sent the relevant draft law;
- Proposals to finance Kubanenergo's long-term capital investment projects from the saved funds were submitted for consideration by the Ministry of Energy of the Russian Federation.

Program to Renew Cable Lines of 6–110 kV in Saint Petersburg

In 2014, ROSSETI successfully completed all facilities under the Program in accordance with the agreements with the Ministry of Energy of the Russian Federation to allocate federal budget funds for the implementation of the Program.

The total length of lines built with federal budget funds is 74 kilometers. Expenses totaled 5,754 million rubles, including 4,472 million rubles allocated from the federal budget.

The completed construction of facilities under the Program resulted in 528 million rubles of saved federal budget funds (with 5 billion rubles allocated).

The mechanism for redistributing the saved federal budget funds was prepared in collaboration with and agreed upon by the Ministry of Energy of the Russian Federation for the Program's facilities that were initially constructed in Kronshtadt by LENENERGO using its own resources. The Board of Directors of LENENERGO approved the supplementary agreement to supervise the implementation of the Program, taking into account the redistribution of the saved budgetary investments.

In 2015, after LENENERGO completes control measures to assess the completeness, reliability, and quality of the design, construction, and installation of the Program's facilities in Kronshtadt, the remaining funds will be redistributed under the Program in accordance with the purpose of federal budget funds.

Comprehensive Program of Measures to Reduce Above-standard Electricity Losses in Distribution Networks in the North Caucasus

With the aim of reducing commercial electricity losses in networks of IDGC of Northern Caucasus in the regions of its operations, the Company carries out the Comprehensive Program of Measures to Reduce Above-standard Electricity Losses. Budgetary investments of 4,950 million rubles were allocated for its implementation. The Program specifies measures to build and modernize electricity metering systems.

Detailed information about spent federal budget funds by Program entity is shown in the table below:

Region (Program Entity)	Received (million rubles)	Balance (million rubles)
Chechen Republic	1,675	428
Republic of Ingushetia	580	46
Republic of Dagestan	2,695	635
Total	4,950	1,110

The Ministry of Energy of the Russian Federation approved the capital investment program of IDGC of Northern Caucasus for 2015–2019, providing for the completion of facilities under the Comprehensive Program in the following order:

- 1st quarter of 2015 in the Republic of Ingushetia;
- 4th quarter of 2015 in the Chechen Republic;
- 1st quarter of 2016 in the Republic of Dagestan.

The program implementation in the Republic of Ingushetia is currently nearing completion, namely: construction and installation were 100% completed; all costs under the project were calculated and entered into the books; a full package of as-built documentation was prepared; the taking of meter readings reached the design level in the 1st quarter of 2015 (95%); the test operation of the system was completed; nonconformities found by the Working Commissions were corrected.

Work is underway to put the system into commercial operation. Equipment at facilities in the Chechen Republic was installed in full; the precommissioning of the system is underway; work is underway to prepare and approve as-built documentation. In the Republic of Dagestan, work is underway on construction and installation.

Detailed information as of January 1, 2015, by Program entity is shown in the table below:

Region (Program Entity)	Planned Electricity Meter Installation Under Design and Estimate Documents (pcs.)	Actually Installed Electricity Meters (pcs.)					
		Entered into the Books Under Completion and Certificates of Completed and Costs Incurred	%	Entered into the Database of the System	%	Integrated into the System	%
Chechen Republic	137,992	133,308	97	137,992	100	104,422	76
Republic of Ingushetia	45,408	45,408	100	45,408	100	41,111	91
Republic of Dagestan	452,816	322,090	71	403,029	89	270,556	60
Total	636,216	500,806	79	587,132	92	416,089	65

In 2014, ROSSETI collaborated with the Ministry of Energy of the Russian Federation in deciding on the possibility of forming 100% of electricity balances. The integrated metering system has the necessary functionality, including the possibility of integrating with electricity meters not covered by the Comprehensive Program from IDGC of Northern Caucasus's 1C accounting system, using the required security level, and the possibility of generating virtual balancing meters.

The completion of facilities under the Comprehensive Program in the Republic of Ingushetia and the Chechen Republic is scheduled for 2015.

Information on Long-Range Activities of the Special Projects Division

At present, the Special Projects Division is active in preparing longrange projects and obtain approval for them from executive authorities. It is planned that these projects as described below will be fully or partly financed from the federal budget.

Construction and Rehabilitation of the Power Supply Infrastructure for Facilities of the 2018 FIFA World Cup and the 2017 FIFA Confederations Cup

As decided in 2014 by the operation headquarters for the preparation of electric power facilities used for the 2018 FIFA World Cup, ROSSETI received from the Ministry of Energy of the Russian Federation the external electricity supply scheme for World Cup sites updated by Energosetproekt Institute.

The external electricity supply scheme provided the basis for drawing up a list of 20 measures related to the construction and rehabilitation of electric grid facilities in 7 cities within the responsibility of 5 ROSSETI SDCs. These measures should be carried out before the end of 2017.

The Program of Preparations for the 2018 FIFA World Cup in Russia provides for 11 measures to be implemented in 6 cities, using federal budget funds of 6.8 billion rubles.

In 2014, ROSSETI SDCs used their own funds to put into operation 3 facilities:

- IDGC of Center and Volga Region in Nizhni Novgorod: construction of 110-kV Strelka Substation with a 110-kV main power line.
- IDGC of Volga: rehabilitation of 110/6-kV Tsentralnaya Substation (replacement of 110-kV outdoor switchgear and 6-kV factory-assembled outdoor switchgear; replacement of supply transformers by 2x25 MVA).
- IDGC of South in Volgograd: 110/6-kV Tsentralnaya Substation (replacement of 6-kV module at Pravoberezhnye Electricity Networks of Volgogradenergo, a branch of IDGC of South). It is planned to implement a package of measures in 2015 to obtain approval for design documents, perform construction and installation work, and receive federal budget funds of 1.5 billion rubles.

Comprehensive Development Programs for Electricity Networks in the North Caucasian Federal District

The programs were approved by the Management Board of ROSSETI. Facilities are located in all 7 constituent entities of the North Caucasian Federal District.

The estimated value is 82.83 billion rubles, including 38.8 billion rubles of IDGC of Northern Caucasus's and FGC UES's own funds and 44.03 billion rubles of federal budget funds.

The programs received approval from all constituent entities of the North Caucasian Federal District. The Company approached the Ministry of North Caucasus Affairs of the Russian Federation and the Ministry of Energy of the Russian Federation about supporting the programs from the federal budget and/or regional budgets.

After the technical feasibility of the Comprehensive Development Programs in the North Caucasian Federal District is confirmed in 2015, the Special Projects Division of ROSSETI plans to prepare and submit to federal executive authorities an application for the allocation of federal budget funds for the implementation of the Comprehensive Development Programs in the North Caucasian Federal District in accordance with the Rules for Examining the Efficiency of Using Federal Budget Funds for Capital Investment Projects approved by Resolution of the Government of the Russian Federation No. 590 of August 12, 2008.

Comprehensive Modernization and Development Program for Electricity Networks in the Kaliningrad Region (hereinafter, the "Kaliningrad Region Comprehensive Program")

The formulation of the Kaliningrad Region Comprehensive Program takes account of the need to carry out the Action Plan (Road Map) "On Securing the Power Supply for the Kaliningrad Region and the Russian Northwest Integrated Power System."

Jointly with Yantarenergo, ROSSETI developed the Comprehensive Development Program for Electricity Networks in the Kaliningrad Region for 2014–2022. Yantarenergo is currently preparing an application and supporting documents for the allocation of federal budget funds for the implementation of the Kaliningrad Region Comprehensive Program.